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8 UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
9 SAN FRANCISCO DIVISION

10 MICROSOFT CORPORATION, a  
Washington corporation,

11 Plaintiff,

12 v.

13 INTRAX GROUP, INC., d/b/a SURPLUS  
14 COMPUTERS; MICHAEL MAK; and  
JOHN DOES 1-5,

15 Defendants.  
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CASE NO. 07-CV-01840 CW

**DEFENDANTS MICHAEL MAK'S  
RESPONSE TO PLAINTIFF'S  
MOTION FOR SUMMARY  
JUDGMENT and  
MAK'S CROSS-MOTION FOR AND  
MEMORANDUM IN SUPPORT OF  
SUMMARY JUDGMENT**

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21 There is nothing about "software" that gives Microsoft rights any greater than the right of a  
22 fourth grader over the distribution of lawfully made copies of the fourth grader's three-line haiku  
23 poem. Both may be "works of authorship" entitling their respective authors to enjoy the exclusive  
24 right to "distribute copies" of their works *subject to* the right of every owner of a lawfully made copy  
25 to dispose of it at will. Both may also choose to exercise their right to license the reproduction of the  
26 intangible work into another material object, such as paper, plastic discs, or computer hard drives.

27 Just as the fourth grader may give grandmother a copy of the haiku poem on paper, with  
28 permission for her to reproduce it onto her hard drive using her scanner, Microsoft may distribute  
copies of its computer programs on disc, and may include with each copy it sells a license to  
reproduce it onto a computer hard drive.

But the license to reproduce a poem or program onto a hard drive does not trump the rights Congress made attendant with ownership of the hard drive, the paper, the CD or other material object in which the work is fixed. As will become evident below, Microsoft's position is that if the fourth grader's grandmother happens to be in Ireland when she scans the poem onto her laptop's hard drive, the fourth-grader may sue his grandmother for infringement of his distribution right if she brings her laptop to her son the United States, relying on Microsoft's argument that the copy on her hard drive was made outside of the United States, and therefore 17 U.S.C. § 109(a) does not protect her. Similarly, Microsoft's position effectively gives the fourth grader the right to "license" his grandmother the right to give her copy of the poem solely to a boy, and sue her for infringement if she gives it to a girl instead.

Fortunately, § 202 of the Copyright Act (title 17, U.S.C.) states unequivocally that the rights in the copy are distinct from copyrights – that the conveyance of a copy and the licensing of a copyright are two different things, and may be conveyed alone or together. Moreover, conveyance of one has no effect on conveyance of the other. If a copyright owner agrees to license a copyright on condition that the owner of the copy not exercise its § 109(a) right to sell the copy, the owner who does so may breach a contract, but does not infringe a copyright.<sup>1</sup>

## I. SUMMARY OF ARGUMENT

### A. Calling It All "Software" Blurs The "Copy / Copyright" Distinction

Microsoft's Complaint and its Motion for Summary Judgment both make heavy use of the term "software" in an apparent effort to conflate these two concepts that the Copyright Act deliberately keeps separate. If we untangle the discs Microsoft sells from the copyrights Microsoft licenses, it will become clear that Microsoft's Motion for Summary Judgment is without merit, and Defendants' Cross-Motion for Summary Judgment should be granted as a matter of law.

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<sup>1</sup> "Even if the copyright owner places restrictions on the purchaser ... the buyer's disregard of the restrictions on resale does not make the buyer or person who buys in the secondary market liable for infringement." *Amer. Int'l Pictures, Inc. v. Foreman*, 576 F. 2d 661, 664 (5<sup>th</sup> Cir. 1978); *accord Indep. News Co. v. Williams*, 293 F. 2d 510, 517-18 (3d Cir. 1961) (refusing to enforce notice printed on comic books prohibiting resale without a cover).

1 The Copyright Act does not even use the term “software” at all, except to refer to the  
 2 “Computer Software Rental Amendments Act of 1990,” which is not applicable here. Significantly,  
 3 that sole reference to “software” is in the context of limiting the scope of the first sale doctrine as  
 4 codified in § 109 of the Copyright Act with respect to rental of certain types of lawfully made copies  
 5 of computer programs under § 109(b). Congress understood fully that § 109(a) applied to copies of  
 6 computer programs without limitation, and therefore an amendment to § 109(a) was necessary if  
 7 copyright owners had any hope of preventing their rental. The Computer Software Rental  
 8 Amendments Act would have been unnecessary if copyright owners in computer programs could so  
 9 easily have achieved the same result by the stroke of a licensing pen or a shift to off-shore  
 10 manufacturing.

11 Microsoft’s rights in its intangible work of authorship, however, are not in issue in this case.  
 12 No claim is made that Microsoft’s works were unlawfully reproduced, performed publicly, or  
 13 derivative works made from them. Rather, the only copyright in issue in this case is the scope of the  
 14 exclusive right under Section 106(3) of the Copyright Act to distribute tangible copies of its computer  
 15 programs.

## 16 **B. The Copy Owner’s Right Prevails Over The Copyright Owner’s Right**

17 The first sale doctrine is an entitlement superior to the copyright. By its express terms, the  
 18 owner of a lawfully made copy or phonorecord “is entitled, without the authority of the copyright  
 19 owner, to sell or otherwise dispose of the possession of that copy or phonorecord.” Section 109(d)  
 20 refers back to it as a “privilege,” and § 106, from whence all copyrights emanate, begins with the  
 21 words, “Subject to sections 107 through 122,” thereby making Microsoft’s copyrights themselves  
 22 subservient to the “privilege” and “entitlement” given to owners of non-infringing copies. Section  
 23 109(a) may certainly be raised defensively, but it remains a substantive affirmative right of “copy  
 24 owners” to which all § 106 rights are subject.

25 “Subject to Sections 107-122” are the words prefacing the grant of each of the exclusive rights,  
 26 including Microsoft’s exclusive right under § 106(3) to distribute copies of its works – *subject to*  
 27  
 28



1 Section 109, which codifies the first sale doctrine. The Supreme Court drove this home in *Quality*  
 2 *King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 144 (1998) (footnotes omitted):

3 [T]he exclusive right to distribute is a limited right. The introductory language in § 106  
 4 expressly states that all of the exclusive rights granted by that section – including, of  
 5 course, the distribution right granted by subsection (3) – are limited by the provisions  
 6 of §§ 107 through 120. One of those limitations, as we have noted, is provided by the  
 7 terms of § 109(a), which expressly permit the owner of a lawfully made copy to sell  
 8 that copy “notwithstanding the provisions of section 106(3).”

9 The first sale doctrine’s limitations on the distribution right of authors has been recognized by  
 10 federal courts since 1853,<sup>2</sup> and by the Supreme Court since 1908. *Bobbs-Merrill Co. v. Straus*, 210  
 11 U.S. 339 (1908).<sup>3</sup> It was first codified in the Copyright Act of 1909, and § 27 of the former Act  
 12 combined the first sale doctrine with the precursor to today’s § 202:

13 The copyright is distinct from the property in the material object copyrighted, and the  
 14 sale or conveyance, by gift or otherwise, of the material object shall not of itself  
 15 constitute a transfer of the copyright, nor shall the assignment of the copyright  
 16 constitute a transfer of the title to the material object; but nothing in this title shall be  
 17 deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the  
 18 possession of which has been lawfully obtained.

### 14 **C. Microsoft’s Two-Pronged Attempt to Evade Section 109(a)**

15 Because 17 U.S.C. § 106 expressly makes the exclusive right to “distribute copies” of a work,  
 16 § 106(3), “[s]ubject to Sections 107-122” of the Copyright Act, we begin with Section 109(a), the  
 17 most recent codification of the “first sale doctrine.” If the defendants are owners of copies “lawfully  
 18 made under this title,” it is beyond dispute that they are entitled, without Microsoft’s consent, to sell  
 19 them without Microsoft’s permission. To escape that outcome, Microsoft makes two arguments.

20 First, Microsoft argues that the copies are “licensed, not sold.” Microsoft’s argument rests on  
 21 the false notion that “because” it licenses the reproduction of its works onto consumers’ hard drives,  
 22 the Microsoft CDs from which the reproductions are made are not subject to Section 109(a) – at least  
 23 not if Microsoft says so in the license. But there is nothing at all inconsistent with copies being sold

24  
 25 <sup>2</sup> *Quality King*, 523 U.S. at 140 n.4 (citing a half dozen lower court cases from 1853 to 1903).

26 <sup>3</sup> *See, also, RCA Mfg. Co. v. Whitman*, 114 F.2d 86, 90 (2d Cir. 1940) (Judge Learned Hand refused to  
 27 enforce a “Not Licensed for Radio Broadcast” notice on RCA’s records, concluding that the record  
 28 company “had no power to impose the pretended servitude upon the records”).

1 even though they are conveyed along with licenses respecting copyrights, such as authorization to  
2 reproduce them onto other media. Microsoft has presented no argument or evidence that it has retained  
3 any ownership interest in the copies. All of the evidence points to defendants as owners of the discs in  
4 question, at least up until the point of sale to defendants' customers, who were licensed by Microsoft  
5 to install (reproduce) the works onto their hard drives. The law of the Ninth Circuit makes clear that  
6 Microsoft cannot alter the ordinary entitlements of ownership as against the copyright owner by self-  
7 serving labels or even by enforceable contractual restrictions. At best, Microsoft might have a claim  
8 for breach of contract against the party that breached its alleged agreement to suppress price  
9 competition, but the other party to the trade-restraint agreement is not before this Court and, in any  
10 event, the breach would sound in contract, not copyright infringement.

11 Second, Microsoft argues that this court should ignore § 109(a) because the copies in question  
12 were manufactured abroad (albeit with Microsoft's authority). Although the Supreme Court has  
13 unequivocally held that § 602 (the importation right) is a mere subset of the § 106(3) distribution right  
14 that is subject to § 109, Microsoft implies that because one member of the Supreme Court noted that  
15 the facts of that case involved copies manufactured in the United States, the Court implicitly ruled that  
16 the opposite outcome would have resulted had the facts involved copies made overseas. There is no  
17 logic to such a leap, and its citation to a single case out of the Southern District of Florida that took  
18 that leap does not make it any more logical. Microsoft asks this Court to focus solely on § 602, and to  
19 ignore the fact that, if its reasoning were to prevail, the first sale doctrine would, *a fortiori*, also have  
20 to be judicially abolished for *all* copies manufactured abroad, including those imported by Microsoft  
21 itself and sold by Microsoft directly to U.S. consumers. A favorable ruling for Microsoft would make  
22 every person who gives away a book, magazine, photograph, sound recording, or pamphlet, run the  
23 risk of infringing the distribution right unless they first determined that the item was "made in the  
24 U.S.A." Indeed, not even a crust of day old bread could be sold in this country if the *copyrighted label*  
25 on the bread was printed in China.

**D. Non-Importers Not Liable for Infringing Distribution By Importer**

By its very terms, § 602 applies to importers of copyrighted works. Microsoft makes no claim that Mak imported any copies at all. While this fact alone should suffice to dismiss Microsoft's claim that Mak violated § 602(a), Microsoft's Motion for Summary Judgment makes clear that its recitation of § 602(a) rights is nothing more than a red herring, intended to focus on whether a comment in Justice Ginsburg's concurring opinion in *Quality King* is dispositive (though it does not even rise to the level of *dicta*). But Microsoft's case does not rest on § 602 at all, despite its many references to that section. Microsoft's case rests on a full frontal attack on § 109(a) by (a) contracting away the statutory rights of owners of copies and (b) moving manufacturing operations overseas.

Nevertheless, although the fact that § 602 has no application at all to Microsoft's claims against Mak, we shall discuss that point briefly, in the belief that by clearing away this red herring the true issues in this case can be examined more clearly.

**E. All Relevant Public Policy Considerations Favor Mak**

Other public policy and broader legal considerations favor Defendant. Where a copyright owner seeks to extend its control beyond the limits imposed by Congress, the unique constitutional justification for copyright protection no longer applies, and principles of First Amendment freedom, antitrust laws, and copyright misuse come into play.

**II. MICROSOFT'S EFFORTS TO AVOID SECTION 109 ARE UNAVAILING**

The central point at issue in the pending cross-motions for summary judgment is whether Mak was the "owner" of the copies at issue here, and whether those copies were "lawfully made under this title." Significantly, Microsoft does not contest Mak's ownership of non-infringing copies in the ordinary sense. Rather, it argues that the ordinary owner is not the true owner because Microsoft placed restrictions upon the rights Congress guaranteed to owners. Also, Microsoft argues that though the copies were non-infringing in the sense that they were fully authorized by Microsoft, they are nevertheless not made lawfully "under this title" because Microsoft directed that these particular copies be manufactured in Ireland and Germany – that by adding "under this title" in § 109(a) of the current Copyright Act 30 years ago, Congress meant for the historic first sale doctrine, recognized

1 since the mid 1800's and codified by Congress a century ago, to be nullified at the copyright owner's  
 2 choice by merely sending the manufacturing jobs offshore. We will take "ownership" and "under this  
 3 title" in turn.

#### 4 **A. Copyrights Are Subject to the Rights of Copy Owners**

5 "Ownership" is the first operative term. Microsoft seeks to focus on whether its purported  
 6 licensing terms negate any sale, but § 109(a) does not require that a sale, much less a "first" sale, take  
 7 place. Rather, the privilege attaches to whoever owns the particular copy. *See, e.g., United States v.*  
 8 *Goss*, 803 F.2d 638, 643 (11<sup>th</sup> Cir. 1986) ("The effect of section 109(a) is that, if Goss owned a legally  
 9 made copy (*i.e.*, a legally made set of ROMs), he was entitled to sell or otherwise distribute such  
 10 ROMs."). When consumers lawfully reproduce Microsoft programs onto their hard drives from a CD  
 11 or by downloading, they continue to be owners of their hard drives even after the hard drives become,  
 12 by definition (§ 101), lawfully made copies of Microsoft's work, though no sale has occurred. Anyone  
 13 who buys a plastic disc onto which Microsoft's works are fixed at the direction of Microsoft becomes  
 14 the owner of a copy, with all of the rights attendant to ownership in the material object.<sup>4</sup>

##### 15 **1. Microsoft Does Not Claim Ownership, Nor Dispute Defendant's Ownership, in the** 16 **Normal Sense**

17 Rights of ownership of the material object in which the work is fixed, as distinct from the  
 18 copyright in the intangible work itself, is a concept rooted in § 202 and § 109(a) of the Copyright Act.  
 19 Section 109(a) entitles every owner of every copy of a Microsoft work "lawfully made under this title"  
 20 to resell it – or authorize others to do so – without Microsoft's consent. Microsoft does not allege that  
 21 the copies themselves are infringing reproductions. While it brandishes words like "trafficked" (in lieu  
 22 of "bought and sold"), and its agents, trained to spot infringing reproductions, conclude that the copies

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23 <sup>4</sup> Section 106(3) grants the exclusive right "to distribute copies or phonorecords of the copyrighted  
 24 work to the public by sale or other transfer of ownership, or by rental, lease, or lending." Section 101  
 further defines "copies" as follows:

25 "Copies" are material objects, other than phonorecords, in which a work is fixed by any  
 26 method now known or later developed, and from which the work can be perceived,  
 27 reproduced, or otherwise communicated, either directly or with the aid of a machine or  
 28 device. The term "copies" includes the material object, other than a phonorecord, in  
 which the work is first fixed.

1 at issue here were “infringing” (as a legal conclusion, simply because they were sold without  
 2 Microsoft’s permission), no allegation is made that the reproductions themselves were infringing.  
 3 Indeed, they trace the source to companies licensed by Microsoft to reproduce them, allegedly in  
 4 Ireland or Germany in facilities licensed by Microsoft to do so. Remick Decl. ¶ 8; Hawkes Decl. ¶¶  
 5 13-18 (both attached to Microsoft’s Motion). Remick and Hawkes, in essence, claim to have traced the  
 6 chain of title from Microsoft’s licensed manufacturer through to Mak and his company, “bought and  
 7 sold” all the way to their own eventual purchase of specific copies.<sup>5</sup>

8 Microsoft seeks to escape the application of § 109(a) by arguing that the owners are not  
 9 “owners” for purposes of § 109(a) because the *software* was licensed, not sold. This argument is  
 10 disingenuous. No one is suggesting that Microsoft “sold its *software*” if the term “software” refers to  
 11 the copyrighted work. Defendants readily concede that Microsoft remains the owner of its copyrights  
 12 no matter how many copies of its works it sells, and § 202 of the Copyright Act makes that clear. But  
 13 Microsoft itself admits to distributing copies of the software to entities it sought to obligate not to  
 14 distribute into the higher-priced market, where it could extract ten-fold higher prices, and later buying  
 15 them from Mak’s company in proof that its distribution chain was leaky. Microsoft avoids saying, but  
 16 clearly concedes, that it parted with ownership of the copies in question.

17 Even without such concessions, Microsoft makes no attempt to present to this Court any  
 18 indicia of ownership in the material objects. In the Ninth Circuit, courts look behind the form to the  
 19 substance of a transaction in evaluating whether title has passed for purposes of § 109(a). *See United*  
 20 *States v. Atherton*, 561 F. 2d 747, 750 (9<sup>th</sup> Cir. 1977) (“licensing agreements” in reality transferred  
 21 ownership); *United States v. Wise*, 550 F.2d 1180, 1190-92 (9<sup>th</sup> Cir.), *cert. denied* 434 U.S. 929  
 22 (1977); *UMG Recordings, Inc. v. Augusto*, 2008 U.S. Dist. LEXIS 48689 (C.D. Cal. June 8, 2008). For  
 23 example, Microsoft does not purport to pay property taxes on the millions (or billions?) of discs it has  
 24 distributed worldwide. Microsoft does not claim to be carrying the risk of loss if a disc is damaged or

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25  
 26 <sup>5</sup> Microsoft’s Motion for Summary Judgment readily concedes that the copies in issue here have been  
 27 bought and sold. For example, “the Surplus Computers Defendants bought and sold,” at 6; “sold  
 28 Student Media,” at 7; and “Mak personally participated in the acquisition” and signed numerous  
 “purchase orders” to acquire it, at 8.

1 destroyed. Microsoft claims no right to demand the return of “its property” from anyone in possession  
 2 of the material objects upon which its works are fixed. Microsoft does not allege that any of the  
 3 defendants stole the discs, nor that they obtained possession of them by any means other than payment  
 4 of the fair market price charged by the seller.

5 If “licensing” terms of the copyright owner can trump ownership of the material object, we end  
 6 up with an irrational outcome – that Microsoft can obtain a distribution right over every hard drive  
 7 onto which its works are reproduced, even if someone else owned the hard drive at the time of  
 8 reproduction. Congress did not intend for consumers to lose ownership of or freedom to sell their hard  
 9 drives merely because they downloaded the latest authorized software upgrade, patch or other  
 10 copyrighted work conditioned on giving up control of their property, or because they downloaded  
 11 while traveling outside the country. Nor can a self-serving license restriction expand the copyright  
 12 owner’s distribution right to copies it no longer owns. *Bobbs-Merrill*, 210 U.S. 339.

## 13 **2. No Right to License the *Private* Performance of a Work Exists**

14 Microsoft maintains that its copyrights were infringed because copies were sold to users  
 15 Microsoft had not licensed to use it. It only licensed people in certain geographic locations or people  
 16 involved in certain educational endeavors the right to “use” (*i.e.*, privately perform) the work from  
 17 copies labeled as “Student Media.” Microsoft’s argument is that by declaring that only a student in a  
 18 foreign country has its permission to operate a given program from a particular copy, the conveyance  
 19 of the copy to someone other than the licensed student renders the transfer of the material object  
 20 unlawful. Because Microsoft gave only certain people permission to operate its programs using those  
 21 copies, the argument goes, it infringes the distribution right to distribute those copies to “unlicensed”  
 22 users (even though no such private performance license is needed by anyone). This is a baseless claim  
 23 unsupported by any copyright anywhere in the world. No jurisdiction either in the U.S. or abroad  
 24 recognizes a copyright in private performances.

25 The Copyright Act does not give a copyright holder control over all uses of his  
 26 copyrighted work. Instead, [Section 106] of the Act enumerates several ‘rights’ that are  
 27 made ‘exclusive’ to the holder of the copyright. If a person, without authorization from  
 28 the copyright holder, puts a copyrighted work to a use within the scope of one of these



1 'exclusive rights,' he infringes the copyright. If he puts the work to a use not  
2 enumerated in [Section 106], he does not infringe.

3 *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 393-95 (1968) (footnotes omitted).  
4 A private performance (*i.e.*, running a program on a personal computer) is not a use enumerated in  
5 Section 106, and therefore it does not infringe. Copyright owners enjoy an exclusive right to perform a  
6 work publicly, but have no right to exclude anyone from performing a work privately. *Twentieth*  
7 *Century Music Corp. v. Aiken*, 422 U.S. 151, 155 (1975). And, the person who runs a computer  
8 program needs no more of a license from the copyright owner than the person who reads a book before  
9 going to bed or sings a song in the shower. *Id.*

10 Moreover, the copyright owner's exclusive right over *public* performances and the user's  
11 unrestricted (and First Amendment protected) right to perform a work *privately* are both entirely  
12 independent of what particular copy the work is performed from, or whether it is performed from  
13 memory and without ever having seen a copy. § 202. Microsoft's legal sleight of hand is the legal  
14 equivalent of a record company insisting that only certain people are licensed to sing the recorded  
15 song in the shower, so it is illegal to sell the CD to unlicensed shower-singers.

### 16 3. Licensing a "Work" Does Not Negate Ownership of a "Copy"

17 Microsoft argues that the copies in issue were "licensed, not sold," as though the two terms are  
18 mutually exclusive. There is nothing mutually exclusive about selling copies (the tangible media)  
19 along with a license (pertaining to the intangible work), and Microsoft has itself been found to do so.  
20 "In most packages of software intended to be sold to an end-user, Microsoft includes a license, on a  
21 piece of paper, that provides that the end-user may install [*i.e.*, reproduce] the software onto one  
22 computer." *Microsoft Corp. v. Action Software*, 136 F.Supp 2d 735, 736 n.1 (N.D. Ohio 2001).  
23 "Plainly, a party who purchases copies of software from the copyright owner can hold a license under  
24 a copyright while still being an 'owner' of a copy of the copyrighted software," *DSC Communications*  
25 *Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), *cert. denied*, 528 U.S. 923 (1999)  
26 (concerning "owner" under § 117). Looking at the "economic realities of the particular arrangement,"  
27 Microsoft itself was been denied its request, as a bankruptcy creditor, that licensed OEM  
28

1 reproductions be treated as licensed services rather than sales. *DAK Indus., Inc. v. Microsoft Corp.*, 66  
2 F.3d 1091 (9<sup>th</sup> Cir. 1995). (DAK had paid a single fee for a license to install copies onto computers.)

3 The current 1976 Copyright Act requires only ownership of a lawfully made copy, and such  
4 ownership may come into being without a sale, such as when the owner of the tangible medium (a  
5 recordable disc or computer hard drive, for example) reproduces a copy onto it under license from the  
6 copyright owner. *See United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (“This [first sale]  
7 doctrine recognizes that copyright law does not forbid an individual from renting or selling a copy of a  
8 copyrighted work which was lawfully obtained *or lawfully manufactured by that individual*”  
9 (emphasis added)); *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986); 2 M. Nimmer and D.  
10 Nimmer, NIMMER ON COPYRIGHT § 8.12[B][3][c]. *See, also* U.S. Copyright Office, “DMCA Section  
11 104 Report,” 78 (2001) (physical copies of works in digital format, such as discs, and copies lawfully  
12 made by downloading, are all subject to § 109).

#### 13 **4. Copyright Licenses Cannot Circumvent Statutory Limits**

14 Microsoft also takes the position that terms of its EULA purporting to specify who can use its  
15 works give it the right to control performances of its works beyond the boundaries imposed by  
16 Congress. Section 106(4) of the Copyright Act gives Microsoft the exclusive right “to perform the  
17 copyrighted work publicly.” Nothing in the Copyright Act gives any copyright owner any right over  
18 the private performance of a work. Microsoft claims not only that right, but apparently also, the right  
19 to limit § 109(a) distributions based on whether the person to whom the § 109(a) distribution was  
20 made was “licensed” to perform the work privately.

21 “Using” computer software in the sense of executing the code that runs the Windows operating  
22 system or the Microsoft Excel spreadsheet cannot be infringing so long as it is a private performance.  
23 Doing so does not infringe any of the § 106 rights of the author. There is no rational basis upon which  
24 a copyright owner could first purport to license only certain individuals to perform its works privately,  
25 and then sue for infringement of the distribution right anyone who distributes a non-infringing  
26 reproduction to an “unlicensed” individual who will engage in the wholly non-infringing act of  
27 privately performing the work from that copy. Nor may Microsoft prohibit distributions to non-  
28



1 students solely because Microsoft did not license non-students the right to engage in non-infringing  
 2 private performances it had no right to prohibit. Microsoft's insistence to the contrary "misconceives  
 3 the statutory definition of 'copies': 'work' and 'copy' are not synonymous terms; rather, a copy is the  
 4 material object in which the work is fixed." *United States v. Goss*, 803 F.2d 638, 642 (11th Cir. 1986).

5 A public performance of the "work" is, likewise, independent of the "copy" – if any – used to  
 6 perform it. For example, one who has been licensed to publicly perform a song may do so by playing  
 7 it from a musical score, playing it from a lawfully made CD, or singing it from memory. The rights  
 8 pertaining to the public performance of the intangible work are independent of whether anyone owns a  
 9 tangible copy, much less whether that copy was manufactured across the border. By conflating its  
 10 right to license the "work" and the separate establishment of title to a "copy" of the work, Microsoft  
 11 asks this Court to ignore the strictures of § 202 wherein Congress insists that the two be kept separate.  
 12 What is more, Microsoft is here attempting to license a private performance right it does not own, and  
 13 use that non-existing right as the leverage for dictating and restricting the commercial flow of copies it  
 14 does not own.

15 *Softman Prods. Co. v. Adobe Systems, Inc.*, 171 F. Supp 2d 1075 (C.D. Cal. 2001) is instructive  
 16 here. In that case, Adobe sought to use restrictive licensing to prevent retailers from separately selling  
 17 lawfully made copies of works that Adobe wanted to force them to sell as a bundle.

18 Adobe asserts that its license defines the relationship between Adobe and any third-  
 19 party such that a breach of the license constitutes copyright infringement. This assertion  
 20 is not accurate because copyright law in fact provides certain rights to owners of a  
 21 particular copy. This grant of rights is independent from any purported grant of rights  
 22 from Adobe. The Adobe license compels third-parties to relinquish rights that the third  
 23 parties enjoy under copyright law.

24 .... This license provision conflicts with the first sale doctrine in copyright law, which  
 25 gives the owner of a particular copy of a copyrighted work the right to dispose of that  
 26 copy without the permission of the copyright owner.

27 *Id.* at 1083. The *Softman* court went on to reject the effort to trump § 109(a) rights with self-serving  
 28 licensing terms.

Softman is an "owner" of the copy and is entitled to the use and enjoyment of the  
 software, with the rights that are consistent with copyright law. The court rejects  
 Adobe's argument that the EULA gives the purchasers only a license to use the  
 software.

1 *Id.* at 1089.

2 **B. “Under This Title” Cannot Reasonably Mean “In The U.S.A.”**

3 If “lawfully made under this title” literally means “made on United States territory,” as  
 4 Microsoft claims, the results would be untenable, and would upset one hundred years of copyright  
 5 jurisprudence. Microsoft’s interpretation would mean that everyone would have to obtain the  
 6 permission of the copyright owner to rent, sell, lend or give away every non-infringing copy of a work  
 7 if that particular copy was manufactured offshore. The business traveler with a laptop, upon return to  
 8 the United States from a foreign country, could not lawfully sell the laptop without first obtaining the  
 9 permission of every copyright owner from whom the traveler received the latest computer program  
 10 “update” or “patch”, or a family photo downloaded with permission from a photo sharing website, or a  
 11 copyrighted e-mail message, none of which would have been “made in the U.S.A.” when reproduced  
 12 onto the hard drive while out of the country. All such copies would be made with the authority of the  
 13 copyright owner granted under § 106 but, according to Microsoft, because they became copies by  
 14 virtue of being fixed in the hard drive while the hard drive was out of the country, the hard drive now  
 15 falls within the scope of the § 106(3) distribution right and is immune from any § 109(a) limitation.

16 Such interpretation flies in the face of standard industry and consumer practice, and would give  
 17 copyright owners unprecedented power to control all retail, resale, barter, gift and lending practices  
 18 under threat that any deviation could result in copyright infringement charges being filed against the  
 19 perpetrator. Moreover, just as the *Quality King* case involved the distribution right not by virtue of the  
 20 product being shampoo, but because the shampoo had a copyrighted label on it, Microsoft’s  
 21 interpretation would mean that manufacturers of consumer products which do not involve copyrights  
 22 at all could gain copyright protection for all manner of restraints on sales by the mere act of having  
 23 copyrighted labels printed overseas, imported, and then slapped onto the article. The potential results  
 24 of such a reading would outrageous: Wholesale grocers of imported canned goods, for example, could  
 25 be obligated to sell only to grocery stores licensed by the owner of the copyrighted label to sell the  
 26 imported label. Not to be outdone, U.S. canneries could gain identical control over the distribution of  
 27 their canned goods by simply having the labels printed across the border. The label “Made in the  
 28

U.S.A., but label printed in Mexico” would be an easy means to bring every article inside the labeled package within the purview of the Copyright Act.

Justice Ginsburg’s observation about the “round trip” nature of the distribution before the Court in *Quality King* in no way suggests that the Court was hinting to L’anza that all it needed to do to regain control over distribution and restrict sales of shampoo it no longer owned was to have the labels printed overseas.

More importantly, Microsoft’s reading of “under this title” to mean “in the U.S.A.” is not limited to the importation right, or to copies of computer programs. However this Court may interpret the phrase “lawfully made under this title” in § 109(a), that interpretation must apply to all copies of any work whatsoever, including copies imported by or with consent of the copyright owner itself. Section 109(a) cannot be given Microsoft’s interpretation half way, judicially rewriting it to mean, “lawfully made in the U.S.A. unless the copyright owner has imported or authorized the importation from the place of manufacture.” If “under this title” means “made in the U.S.A.,” then millions of foreign films, newspapers, books and magazines, sound recordings, paintings, and even canned goods and L’anza shampoo with a copyrighted label printed overseas, would lose the benefit of Section 109(a), subjecting the owners to civil and criminal copyright infringement claims if they disposed of them by gift, sale or lending. It would cut across the entire spectrum of non-infringing copies that are distributed by their owners. For example:

- The local library could not let patrons borrow books or magazines printed abroad, unless the copyright owner licensed the distribution.
- The local video store could not choose whether to sell or rent the videos it buys if the copyright owner manufactures the copies offshore, eliminating a right that has existed since the inception of the home video rental industry back in the 1970s.
- The local record store would have to scour the packaging of a CD to determine where it was manufactured.<sup>6</sup> Most state laws require that packaging contain the true name and address of the

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<sup>6</sup> Despite arguing the significance of the place of manufacture in determining whether the seller of a disc is entitled by law to do so or subject to a statutory fine of \$750 to \$150,000 for every time a student lets a non-student use it, Microsoft does not bother to indicate the country of origin on its own

1 manufacturer, but not the place of manufacture.<sup>7</sup> If it does not say “made in the U.S.A.,” any  
2 transfer of possession would carry the risk of liability for infringement.

- 3 • A family having a garage sale would need to check the place of manufacture before selling  
4 books, magazines, CDs, DVDs, or video games to passersby. Only those “made in the U.S.A.”  
5 could be sold. The others could not even be donated to charity without the copyright owner’s  
6 permission, since Section 106(3) applies to distribution “by sale or other transfer of ownership,  
7 or by rental, lease, or lending.”

8 Microsoft’s reading would mean that publishers of copyrighted works – or of copyrighted labels  
9 affixed to non-copyrightable goods – could simply take their reproduction operations offshore, and  
10 thereby gain unheard of control over every future disposition of the article.

11 Significantly, it would not be enough for the purchaser to obtain non-infringing copies directly  
12 from the copyright owner or through channels authorized by it. If they were manufactured offshore,  
13 the copyright owner would get to decide which retailers could sell them, and to whom grandmothers  
14 could bequeath their copy of their grandchild’s haiku poem.

### 15 **1. Not Extraterritorial Application of the U.S. Copyright Act**

16 Microsoft, and the weak authority on which it relies, places far too heavy an emphasis on  
17 Justice Ginsburg’s concurrence in *Quality King*, 523 U.S. at 154. But Justice Ginsburg’s mere  
18 observation that William Patry had commented that, because the Copyright Act does not apply  
19 extraterritorially, “lawfully made under this title” must mean “lawfully made in the United States,” is a  
20 slender thread upon which to hang the conclusion (albeit reached in *Swatch S.A. v. New City, Inc.*, 454  
21 F. Supp. 2d 1245 (S.D. Fla. 2006)), that the law is now settled on the basis of what a concurring  
22 Justice said was categorically *not* settled, and illustrated by what an attorney might argue in the future.

23  
24 copies. See Exhibit 1, attached to Remick Decl., showing a photocopy of the material object of the  
type in question.

25 <sup>7</sup> See, e.g., California Penal Code § 653w (“A person is guilty of failure to disclose the origin of a  
26 recording or audiovisual work if ... he or she knowingly advertises or offers for sale or resale, or sells  
27 or resells, or causes the rental, sale or resale, or rents, *or manufactures*, or possesses for these  
28 purposes, any recording or audiovisual work, the cover, box, jacket, or label of *which does not clearly  
and conspicuously disclose the actual true name and address of the manufacturer thereof*”).

1 The meaning of “lawfully made under this title” must focus, rather, on the Constitution’s  
 2 Article I, Section 8 question, which is whether the copyright owner exercised its exclusive right.  
 3 “Lawfully made” is not a function of the physical process of reproduction or its location, but a  
 4 function of whether the reproduction was “authorized” by the copyright owner or by law (such as a  
 5 compulsory license under § 115). The Senate Report on the Copyright Act of 1976, 94th Cong., 2nd  
 6 Sess., Report No. 94-1476, at 79, explained it this way (emphasis added):

7 To come within the scope of section 109(a), a copy or phonorecord must have been  
 8 ‘lawfully made under this title,’ though not necessarily with the copyright owner’s  
 9 authorization. For example, any resale of an illegally ‘pirated’ phonorecord would be  
 10 an infringement, but *the disposition of a phonorecord legally made under the*  
 11 *compulsory licensing provisions of section 115 would not.*

12 For another example, § 121 of the Copyright Act authorizes the reproduction and distribution,  
 13 without the consent of the copyright owner, of copies in Braille for use by the blind or other persons  
 14 with disabilities. Nothing in § 121 limits the site of the reproduction to U.S. territory, yet this does not  
 15 mean that any Braille texts reproduced overseas are therefore infringing. The focus is on the source of  
 16 the authority to reproduce – either the author or the law – and not whether someone made the mistake  
 17 of reproducing an article in Braille for a blind friend while on vacation in Ireland instead of while at  
 18 home in Seattle.

19 The entire evolution of the first sale doctrine supports the conclusion that “lawfully made  
 20 under this title” means, simply, made with the copyright owner’s permission or, if not with the  
 21 copyright owner’s permission, then made under authority of United States law. What is excluded is  
 22 reproduction under authority of foreign law and without the permission of the copyright owner or the  
 23 U.S. Copyright Act. That excluded set of facts is not before us.

24 The first sale doctrine itself, prior to codification, developed without regard to where the copy  
 25 was manufactured. The only concern was whether the author had authorized the manufacture and  
 26 parted with title to the authorized copy. As *Quality King* established, Section 109(a) is a limitation on  
 27 Section 106 *ab initio*. The reproduction and distribution rights do not even come into being unless they  
 28 are exercised “subject to” Section 109(a). If “lawfully made under this title” means that the physical  
 place where “made” must be the United States, on the theory that otherwise the Act would be applied

extraterritorially, *a fortiori* the Section 106(1) reproduction right can only apply to the reproduction or authorization to reproduce copies “in the U.S.A.,” *ergo*, when Microsoft authorized a replicator in Ireland to manufacture the discs at issue in this case in Ireland rather than the United States, it could not have been exercising its Section 106(1) right. That is, if Section 106(1) cannot be applied to reproductions taking place overseas, then not even the copyright owner could claim that the copies were “lawfully made under this title.” Such a conclusion is irrational.

Interpreting copyrights (and their limitations) by balancing the author’s right to authorize reproductions against the public’s interest in broad dissemination of authorized copies, regardless where they were made, is more consistent with the approach taken by the Supreme Court when it judicially recognized the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).<sup>8</sup> It is also consistent with Congress’ earliest codification in § 27 of the Copyright Act of 1909. Unconcerned with the place of reproduction, § 27 began by noting the distinction between the right in the intangible work and the right of ownership in the tangible reproduction, now codified in § 202 of the current Act, and then provided, “nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” Finally, it is more consistent with the present codification in § 109(a) of the Copyright Act of 1976, as noted above.

In short, the interpretation urged by Microsoft suggests an irrational Congress. The empowerment of post-sale control over all re-distribution plus a total exemption from § 109(a) as a reward for offshore manufacturing and the attendant loss of U.S. jobs cannot, by any stretch of the imagination, be rationally related to a legitimate state interest. Moreover, it runs contrary to the copyright policy expressed in the Constitution of encouraging broad dissemination of science and

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<sup>8</sup> The Copyright Office has noted that the *Bobbs-Merrill* Court “drew a sharp distinction between the reproduction right and the right to vend. It noted, as a matter of statutory construction, that the reproduction right was the ‘main purpose’ of the copyright law, and the right to vend [distribute] existed to give effect to the reproduction right. Since a grant of control of the copyright owner over resales would not further this main purpose of protecting the reproduction right, the Court was unwilling to read the statute as providing such a grant.” U.S. Copyright Office, “DMCA Section 104 Report,” 20-21 (2001) (citations omitted).

1 useful art. Microsoft seeks to suppress such dissemination for the sole purpose of extracting monopoly  
2 profits from artificially segregated markets by preventing price competition between them.<sup>9</sup>

## 3 2. Microsoft's Interpretation Conflicts with Other Chapters of the Copyright Act

4 The interpretation of "lawfully made under this title" is at odds with two other provisions of  
5 the Copyright Act. First, the Audio Home Recording Rights Act ("AHRA") contained in Chapter 10  
6 (17 U.S.C. §§ 1001-1010) uses the same phrase. Known as "AHRA," it sets up a mechanism through  
7 which royalties are collected on certain blank digital recording media and audio recording devices,  
8 which royalties are to be distributed among certain "interested copyright parties" ostensibly harmed by  
9 the provision in § 1008 that prohibits infringement actions based on the noncommercial making of  
10 musical recordings by a consumer.

11 If Microsoft's interpretation of the language were applied in AHRA, it would mean that  
12 copyright owners are not permitted to collect a share of the royalties if their sound recordings are  
13 reproduced outside of the United States. Section 1006(a) provides that royalties are to be "distributed  
14 to any interested copyright party (1) whose musical work or sound recording has been (A) embodied  
15 in a digital musical recording or an analog musical recording lawfully made under this title that has  
16 been distributed ..." (emphasis added).<sup>10</sup> The Copyright Office itself seems to consider the words  
17 "under this title" sufficiently superfluous as to omit them from its *DART Factsheet on Filing Claims*  
18 *for Royalty Distribution*.<sup>11</sup> None of the forms prepared by the Copyright Office upon which an  
19  
20

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21 <sup>9</sup> See U.S. Copyright Office, "DMCA Section 104 Report," 86 (2001) (footnote omitted), noting that  
22 the first sale doctrine "appears to have been motivated as well by competition concerns – specifically,  
23 the ability of publishers to use their vending and distribution right to control not only the initial sale of  
books, but the aftermarket for resales."

24 <sup>10</sup> See, also, Section 1001(7) (defining "interested copyright party" in part as "the owner of the  
25 exclusive right under section 106(1) of this title to reproduce a sound recording of a musical work that  
has been embodied in a digital musical recording or analog musical recording lawfully made under  
this title that has been distributed").

26 <sup>11</sup> Available at <http://www.copyright.gov/carp/dartfact.html>. Under the heading "Who Can File a  
27 Claim Form?" the Copyright Office, without comment, condenses the phrase "lawfully made under  
28 this title that has been distributed" in § 1006(a)(1)(A) to merely "lawfully made and distributed."



1 “interested copyright party” may claim its share of funds requires the interested party to limit its  
2 claims to those copies made within the United States.<sup>12</sup>

3 Second, when Congress meant, “made in the U.S.A.,” it knew how to say it. Section 601(a)  
4 provides that until July 1, 1986, “the importation into or public distribution in the United States of  
5 copies of a work consisting preponderantly of nondramatic literary material that is in the English  
6 language and is protected under this title is prohibited *unless the portions consisting of such material*  
7 *have been manufactured in the United States or Canada.*” Significantly, when Congress decided to  
8 sunset the provision, it was influenced by the argument that “The manufacturing clause violates the  
9 basic principle that an author’s rights should not be dependent on the circumstances of manufacture.”<sup>13</sup>  
10 It stands to reason that if the author’s rights should not be dependent on where the author chooses to  
11 make copies, so, too, should the statutory limitations on those rights not be so dependent.

12 This approach is consistent with the Copyright Office’s own explanation of § 109(a), when  
13 Congress asked it to examine § 109(a) in light of digital commerce:

14 Section 109 creates a two-prong test for eligibility for the privileges under  
15 section 109. First, the person must be the owner of the copy at issue. This applies to  
16 ownership of the tangible item (e.g., a book, photograph, videocassette, CD, floppy  
17 disc, etc.) in which a copyrighted work is fixed. While ownership may be obtained by  
18 virtue of a sale, this prong is also satisfied if ownership is obtained by virtue of gift,  
19 bequest, or other transfer of title. It does not apply to mere possession, regardless of  
20 whether that possession is legitimate, such as by rental, or illegitimate, such as by theft.  
21 Nor does it refer to ownership of the copyright or of any of the exclusive rights.

22 <sup>12</sup> For a sample claim form, *see, e.g.*, Single Claim Form for DART Royalty Fees, available at  
23 [http://www.copyright.gov/carp/dart/single\\_printable.pdf](http://www.copyright.gov/carp/dart/single_printable.pdf).

24 <sup>13</sup> H. Rep. 94–1476. The economic impact of encouraging overseas manufacturing at the expense of  
25 U.S. publishers was also considered, and determined to have little impact, but enough to warrant a  
26 slow phase-out.

27 After carefully weighing these arguments, the Committee concludes that there is no  
28 justification on principle for a manufacturing requirement in the copyright statute, and  
although there may have been some economic justification for it at one time, that  
justification no longer exists. While it is true that section 601 represents a substantial  
liberalization and that it would remove many of the inequities of the present  
manufacturing requirement, the real issue is whether retention of a provision of this sort  
in a copyright law can continue to be justified. The Committee believes it cannot.

*Id.*



1           Second, that copy must have been lawfully made. Ownership of a copy that is  
 2           not authorized by either the copyright owner or the law, even if the owner is unaware of  
 3           the piratical nature of the copy, does not permit the owner to avail himself of section  
 4           109. Nothing in the statute limits the manner in which the making of the copy may be  
 5           accomplished, so long as the resulting copy is lawful.

6           The statute does not distinguish between analog and digital copies.  
 7           Consequently, it does not matter whether the work is embodied in an analog  
 8           videocassette or a digital DVD – the copyright owner’s distribution right with respect  
 9           to that particular copy is extinguished once ownership of the copy has been transferred,  
 10           and the new owner is entitled to dispose of that copy as he desires.

11           U.S. Copyright Office, “DMCA Section 104 Report,” 22-24 (2001) (citations omitted, emphasis  
 12           added).

13           Whether “lawfully made under this title” encompasses copies made under a compulsory  
 14           license imposed by a *foreign* state is not before this Court. The Supreme Court certainly seems to hold  
 15           that one reason for the “under this title” qualifier was to exclude copies that, without the authority of  
 16           the author, had been “lawfully made” under some compulsory scheme of a foreign state. Pointing out  
 17           the flaws in the argument that the § 602(a) right would be superfluous if applied to non-infringing  
 18           copies, Justice Stevens observed (among two additional points):

19           §602(a) applies to a category of copies that are neither piratical nor “lawfully made  
 20           under this title.” That category encompasses copies that were “lawfully made” not  
 21           under the United States Copyright Act, but instead, under the law of some other  
 22           country.

23           *Quality King*, 523 U.S. at 147. But on the narrow question of copies lawfully made under § 106(1) of  
 24           this title, which are the only ones at issue here, there can be no doubt that § 106(1) entitles the author  
 25           to license reproductions that take place abroad, and therefore, 109(a) applies. To put it succinctly, if  
 26           this Court were to agree with Microsoft, then Microsoft would be powerless to prevent the distribution  
 27           in the United States of pirated copies manufactured overseas, because its exclusive reproduction right  
 28           would have to be exclusive only insofar as the unauthorized reproduction takes place in U.S. territory.

            To the contrary, Microsoft did exactly what § 106(1) gives it the exclusive right to do: It made  
 or authorized to be made the reproduction of its work into copies. Whether it made or authorized them  
 to be made in the U.S., in Ireland, or on the moon, is wholly irrelevant to the question of whether it  
 exercised its exclusive right, under § 106(1), to make them or have them made. The Copyright

Office's interpretation – "authorized by either the copyright owner or the law" of the United States<sup>14</sup> – requires no extraterritorial application, even if the copies authorized by the copyright owner are made in Ireland or Germany.

### C. Defendant Is Not Alleged To Have Imported

It stands to reason that the prohibition against importation in Section 602(a) applies to those who import. Accordingly, Microsoft's Motion for Summary Judgment fails because, even if § 602(a) was not subject to § 109(a), Mak is not the importer. This error is so clear that perhaps this Cross-Motion for Summary Judgment should have led off with this fundamental flaw in Microsoft's case. Defendant's reluctance to do so is for this reason: Microsoft's § 602(a) claim is a red herring.

Microsoft purports to base its case on the premise that *Quality King* did not involve copies manufactured abroad, but fails to note the fact that *Quality King* rested on the fact that the defendant in that case was considered to be the importer, for purposes of that opinion. (Noting the "uncertainty" whether the defendant was, in fact, the importer, the Court chose to rest its opinion on broader principles, stating, "for the purpose of our decision, *we assume* that petitioner bought all three shipments from the Malta distributor, *imported them*, and then resold them to retailers." 523 U.S. at 139 (emphasis added).) Here, this Court need cannot make that assumption, for Microsoft has not alleged that Defendant Mak actually imported them.<sup>15</sup>

The Complaint alleges, in Paragraph 18, that John Doe defendants that Microsoft chooses not to name – but clearly not Mak – imported the copies at issue here, and Paragraph 16 makes a vague allegation of conspiracy among all of the defendants. Although Microsoft has learned through discovery the identity of the well-known importer, and no evidence has surfaced suggesting Mak was involved in any conspiracy to import, Microsoft's case does not rest on whether Mak or any other defendant actually imported the copies. Rather, Microsoft's case rests entirely upon two legal theories that have nothing whatsoever to do with whether § 602(a) is applicable.

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<sup>14</sup> U.S. Copyright Office, "DMCA Section 104 Report," 23 (2001).

<sup>15</sup> Microsoft learned the identity of the importer during discovery (if it did not know it already). The importer's identity is irrelevant, given that the importer is not before this Court.

1 First, Microsoft's claim of a right to control all distribution of all material objects in which its  
 2 intangible work is fixed rests on the assertion that no one other than Microsoft can be the owner of  
 3 lawfully made copies – for the simple reason that Microsoft “licenses” its “software”. Microsoft also  
 4 claims that, in any event, § 109(a) has no force or effect if the licensed reproduction took place  
 5 overseas – not even if Microsoft itself authorized the importation. This argument has nothing to do  
 6 with the importation right, under Microsoft's theory. Rather, Microsoft theorizes that the resulting  
 7 copies, though clearly authorized by Microsoft in the exercise of its rights under § 106(1) of the  
 8 Copyright Act, were not lawfully made under the Copyright Act because the Act does not have an  
 9 extraterritorial reach (though Microsoft's § 106(1)-based authorization to the manufacturer in Ireland  
 10 does reach Ireland). Thus, Microsoft's motion is not at all premised on whether Mak imported them.  
 11 Indeed, Microsoft's two theories apply just as well (and just as unreasonably) even if Microsoft itself  
 12 imported them and sold them to Mak's U.S. suppliers. Accordingly, defendants feel obligated to  
 13 address Microsoft's true legal positions challenging the entire application of § 109(a) masquerading as  
 14 a narrow question about importation rights.

#### 15 **D. Other Legal And Public Policy Considerations Favor Defendants**

16 Copyright law does not exist in a vacuum. Born out of Article I, Section 8, of our Constitution,  
 17 the purpose of the Copyright Act is to promote the progress of science and the useful arts. The purpose  
 18 is not primarily to enrich copyright owners, nor to exclude copyright enforcement from the reach of  
 19 the First Amendment's prohibition against suppressing speech, nor to ignore the public policy against  
 20 restraints on alienation.<sup>16</sup> Three particular limitations in furtherance of the constitutional birthright  
 21 warrant special note here.

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26 <sup>16</sup> “The first sale doctrine was originally adopted by the courts to give effect to the early common law  
 27 rule against restraints on alienation of tangible property.” S. Rep. No. 162, 98<sup>th</sup> Cong., 1<sup>st</sup> Sess. 4  
 28 (1983).

1                   **1. Society's Interest in Enforcing Microsoft's Copyrights is No Greater than**  
 2                   **Society's Interest in Preventing Microsoft from Overreaching**

3                   The Supreme Court put it most clearly when it established that successful defendants are just  
 4 as entitled to an award of costs and attorneys fees under Section 505 of the Copyright Act as are  
 5 successful plaintiffs:

6                   Because copyright law ultimately serves the purpose of enriching the general public  
 7 through access to creative works, it is peculiarly important that the boundaries of  
 8 copyright law be demarcated as clearly as possible. To that end, defendants who seek to  
 advance a variety of meritorious copyright defenses should be encouraged to litigate  
 them to the same extent that plaintiffs are encouraged to litigate meritorious claims of  
 infringement.

9                   *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994). Applied to this case, society's interest in the wide-  
 10 spread dissemination of copies made more affordable to a wider number of consumers because of the  
 11 copy owner's right to redistribute them without the copyright owner's consent is just as important as is  
 12 enforcement of the copyright owner's copyrights. Where the copyright owner's objective is to weaken  
 13 § 109 rights to copy owners, we respectfully suggest that the public interest is unidirectional in favor  
 14 of applying, undiluted, the rights Congress vested in owners of non-infringing copies. That is because  
 15 the purpose of § 109 is not just to protect the interests of those who wish to dispose of their copies by  
 16 gift or sale, but to bring art and science to those who can obtain copies more affordably because of the  
 17 gifts and competitive, free market sales of others, and for whom Microsoft's tenfold price increase is  
 18 unaffordable.

19                   **2. Copyright Holders Are Not Exempt From Antitrust Laws**

20                   If the manufacturers of blank discs were to discriminate in price among similarly situated  
 21 buyers and enforce that price discrimination by requiring all purchasers of the lower cost goods to  
 22 agree not to sell them in competition with the identical higher priced discs, there would be no question  
 23 that a Sherman Act § 1 violation had occurred (and perhaps also a Robinson-Patman Act violation).  
 24 The mere fact that the discs in question here fall under the definition of "copies" under Section 101 of  
 25 the Copyright Act because a copyrighted work is fixed in them does not change that analysis.

26                   Here, Microsoft seeks to impose a naked restraint on competition by artificially creating one  
 27 higher-priced market for those who can pay top dollar and a lower-priced market for those who might  
 28

1 otherwise be more inclined to meet their needs with free software, competing products, or perhaps  
 2 even pirated copies. It then seeks to prevent price competition from the lower cost market by entering  
 3 into agreements with overseas distributors to prevent them from being exploited by competitive  
 4 arbitrage wherein those who can afford top dollar choose to pay a lower price for an identical copy of  
 5 the identical work. We need not determine whether those agreements can be enforced in foreign  
 6 courts, or whether they could be prosecuted as Sherman Act felonies in domestic courts. What is clear,  
 7 however, is that no court should lend its aid to the misuse of the limited copyright to gain an anti-  
 8 competitive advantage that is so repugnant to our system of free competition protected by the Sherman  
 9 Act and other antitrust laws.

### 10 **3. Microsoft is misusing its Copyrights**

11 By conditioning the sale of copies of its works on the purchaser's agreement not to exercise the  
 12 rights Congress gave all purchasers under Section 109 of the Copyright, Microsoft is engaged in  
 13 copyright misuse by enlarging the limited scope of its statutory rights. Microsoft has taken seriously  
 14 the humor in the old joke that, when the genie grants three wishes, your third wish should be "give me  
 15 unlimited wishes." When Congress gave Microsoft the exclusive right to distribute copies of its works  
 16 "subject to" the right of those new owners of the discs to redistribute them to others without  
 17 Microsoft's consent, Microsoft has replied, "Go ahead and limit our right to distribution to only the  
 18 copies we own. We simply won't distribute to anyone who does not agree to grant us back unlimited  
 19 distribution rights over the copies they own."

20 The remedy for such an abuse of its copyrights is to preclude Microsoft from enforcing them at  
 21 all until its ceases the misuse. *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978 (4<sup>th</sup> Cir. 1990);  
 22 *Schloss v. Sweeney*, 515 F. Supp. 2d 1068, 1079-80 (N.D. Cal. 2007); *MGM Studios, Inc. v. Grokster,*  
 23 *Ltd.*, 454 F. Supp. 2d. (C.D. Cal. 2006) (citing Ninth Circuit other authority).

### 24 **CONCLUSION**

25 This Court should find that copies made by or with the consent of Microsoft in the exercise of  
 26 its exclusive right under § 106(1) are not infringing no matter where made; that when Congress  
 27 expressly made all § 106 rights "subject to sections 107-122," it did not imply that copyright owners  
 28

1 could render § 106(3) “subject only to sections 107-108 and sections 109(b)-122, but not section  
 2 109(a)” by sending the manufacturing jobs offshore; and that whether Microsoft licensed any § 106(1)  
 3 copyrights in its computer programs is irrelevant to the central question here: whether anyone other  
 4 than Microsoft is the owner of the non-infringing copies. Microsoft cannot lawfully remove the limits  
 5 placed on its copyrights by shutting down U.S. manufacturing operations and moving them overseas.  
 6 Nor can it alter the reality of ownership in tangible copies with the stroke of a copyright licensing pen.

7 *Bill Weasley:* To a goblin, the rightful and true master of any object is the maker, not  
 8 the purchaser. All goblin-made objects are, in goblin eyes, rightfully theirs.

9 *Harry Potter:* But if it was bought –

10 *Bill Weasley:* –then they would consider it rented by the one who had paid the money.  
 11 They have, however, great difficulty with the idea of goblin-made objects passing from  
 wizard to wizard. ... They consider our habit of keeping goblin-made objects, passing  
 them from wizard to wizard without further payment, little more than theft.

12 J.K. Rowling, HARRY POTTER AND THE DEATHLY HALLOWS 517 (2007). Microsoft’s view of the world  
 13 is shared with the goblins of J.K. Rowling’s imagination, but it is just as fictional.

14 For the foregoing reasons, Defendants respectfully request that Plaintiff’s Motion for Summary  
 15 Judgment be denied, and that summary judgment be granted to Defendants together with an award of  
 16 their costs and attorneys fees in defending this action, pursuant to § 505 of the Copyright Act.

17 DATED this 18th day of August, 2008.

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**CERTIFICATE OF SERVICE**

I hereby certify that the foregoing document was served upon the following parties and/or counsel of record, by the means designated below, this 18th day of August, 2008.

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10 UNITED STATES DISTRICT COURT  
11 NORTHERN DISTRICT OF CALIFORNIA  
12 SAN FRANCISCO DIVISION

13 MICROSOFT CORPORATION, a  
14 Washington corporation,

15 Plaintiff,

16 v.

17 INTRAX GROUP, INC., d/b/a SURPLUS  
18 COMPUTERS; MICHAEL MAK; and  
19 JOHN DOES 1-5,

20 Defendants.

CASE NO. 07-CV-01840 CW

**[PROPOSED]**

**ORDER DENYING PLAINTIFF'S  
MOTION FOR SUMMARY  
JUDGMENT AND GRANTING  
DEFENDANT'S MOTION FOR  
SUMMARY JUDGMENT AS TO  
DEFENDANT'S LIABILITY FOR  
COPYRIGHT INFRINGEMENT AND  
AWARDING COSTS AND FEES TO  
THE PREVAILING PARTY**

21 The Court, having been fully briefed on the parties' cross-motions for summary judgment on  
22 the question of Defendant's liability for copyright infringement, and having heard the arguments of  
23 counsel, and good cause appearing therefore, it is hereby ORDERED that Plaintiff Microsoft  
24 Corporation's Motion for Summary Judgment is hereby DENIED, that Defendant Michael Mak's  
25 Cross-Motion for Summary Judgment is hereby GRANTED, in light of the fact that the copies of  
26 Plaintiff's works in issue have been lawfully made by or under the authority of Plaintiff, were owned  
27 by Defendants at the time of the sales in question, and were therefore sold pursuant to Defendants'  
28 right under Section 109(a) of the Copyright Act to dispose of them without the consent of the  
copyright owner.



1 It is further ORDERED that Plaintiff's agreements and licensing restrictions intended to impair  
2 Defendant's rights under Section 109(a) are against the public policy of the Copyright Act and  
3 therefore void and unenforceable, and further, that Plaintiff's efforts to condition the initial  
4 distribution of lawfully made copies on condition that Section 109(a) rights be waived constitutes a  
5 misuse of Plaintiff's copyrights, and that Plaintiff's copyrights in the works fixed in the copies in  
6 dispute shall not be enforced until such misuse is abated.

7 It is further ORDERED that Defendants are entitled, pursuant to Section 505 of the Copyright  
8 Act, to their costs and reasonable attorneys fees in defending this action, that Plaintiffs shall pay the  
9 same, and that Defendants shall submit a statement of their costs and fees to this Court within thirty  
10 (30) days of this Order.

11 Having found for Defendants on these dispositive grounds, the Court dismisses all related  
12 claims that may be pending.

13  
14 Dated: \_\_\_\_\_

\_\_\_\_\_  
Hon. Claudia Wilken  
Judge, United States District Court

15  
16  
17 Presented by:  
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